



BERBERICH TRAHAN & CO., P.A.

Certified Public Accountants

HIGHLAND COMMUNITY COLLEGE

BASIC FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2014

HIGHLAND COMMUNITY COLLEGE
BASIC FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2014

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HIGHLAND COMMUNITY COLLEGE
BASIC FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Highland Community College:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Highland Community College (the College), as of and for the year ended June 30, 2014, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Highland Community College Foundation (the Foundation), the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Foundation, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Kansas Municipal Audit and Accounting Guide, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Highland Community College and its discretely presented component unit, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 - 10 and the Schedule of Funding Progress on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The schedules listed under supplementary information in the accompanying table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules listed under supplementary information in the accompanying table of contents including the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Berberich Trahan & Co., P.A.

September 8, 2015
Topeka, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Introduction

This section of HCC's Basic Financial Statements and Supplementary Information presents management's discussion and analysis of the College's financial performance during the fiscal year ended June 30, 2014 and is designed to focus on current activities. Therefore, please read this MD&A in conjunction with the accompanying financial statements and footnotes. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. The financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) principles. HCC has adopted GASB statements 34 and 35 on *Basic Financial Statements--and Management's Discussion and Analysis—for Public Colleges and Universities*. The standards established by the GASB principles were used for preparation of public college financial statements that focus on aggregate operations, versus the previous standards that focus on the activity of an individual fund. The report consists of three basic financial statements that provide information on the College as a whole: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. Comparative data from prior year will also be discussed.

Background

Founded in 1858, the HCC's main campus is located in Highland, Kansas – Doniphan County. The main campus is in close proximity (within 30 miles) of a private Catholic College and a Missouri State University. Regional instruction sites are located near the University of Kansas, Washburn University and Kansas State University. The locations of HCC's regional centers attract local students and students attending neighboring universities.

HCC serves over all or parts of nine counties in Kansas, with authority to levy taxes on one - Doniphan County. HCC's revenue sources for the general fund are received from the State of Kansas, students, the taxpayers of Doniphan County and other sources.

The Kansas Board of Regents is responsible for the coordination of all 19 Kansas community colleges and for the governance and coordination of the public universities and technical schools and colleges in Kansas. A locally elected Board of Trustees, made up of six residents of Doniphan County, govern HCC.

The State of Kansas, through oversight by the Kansas Board of Regents, provides the College with an operating grant, which was historically based upon the College's full-time equivalency enrollment of Kansas residents. Other funds provided through the Kansas Board of Regents include Capital Outlay funds for technical credit courses, Technology Grant funds for student technology upgrades in the College, and Tuition Waivers for Kansas High School students participating in Postsecondary Technical Education Courses.

Fiscal year 2011 was the last year for funding for Kansas Community Colleges under Senate Bill 345. The new operating grant funding system went into effect for fiscal year 2012. However, because of the condition of the state budget, Community College funding has essentially changed to a block grant. With state aid frozen for the foreseeable future, HCC has become more reliant on student tuition and fee generation. The strategy has been to implement slight increases in tuition paired with a managed enrollment growth to offset any of the College's increases in expenses.

HCC continues to receive postsecondary aid and capital outlay funds for the technical credit courses. The revenues and the tuition and fees generated by the technical courses are received into a separate Postsecondary Technical Education fund to support the operations of the technical center in Atchison, and to provide technical course offerings at the College's other locations. The State's funding mechanism for Technical Education is also through an operating grant, which is quite similar to the operating grant provided to Community Colleges. The operating grant for Technical Education has also changed into a block grant format.

Economic Outlook

The College's enrollments respond inversely to economic cycles—people tend to work more when the economy is good and continue their education more when work is less available. The economic forecast for the next year remains uncertain. The demand for job retraining, upgrading employability skills and lifelong learning will increase in the near future. Time limitations and economic pressures will influence students to enroll in classes at sites closest to their homes and workplaces, and to seek distance learning options whenever possible. We are experiencing an overall trend of declines in enrollment, which may be attributable to smaller graduating classes in the College's service area. Despite the decline in enrollment, online courses continue to be a popular option with students. The use of asynchronous and distance learning instructional modalities will increase as their educational viability improves and becomes more common and accepted.

Funding of higher education will remain limited from traditional state and federal sources. Pressure will continue to increase tuition and fees to offset reduced state funding. Private fundraising efforts of the College's Foundation will grow in importance to assist students by removing financial barriers and to supplement funding for various College initiatives and operations.

Public demands for institutional accountability and effectiveness will continue to increase. The College will need to embrace innovation and continuous quality improvement efforts in academic and administrative support programs and services. Information gathering and reporting will continue to be a major requirement of the College to monitor continuous improvement and cost-effectiveness. Accrediting agency expectations will require more documented evidence of performance. Accountability measures will focus on student learning, outcomes, program completion and cost-effectiveness.

Using This Annual Report

The financial statements focus on the College as a whole. The College's financial statements are designed to emulate corporate presentation models whereby the College activities are consolidated into one total. The focus of the Statement of Net Position is designed to be similar to bottom line results for the College. This financial statement combines and consolidates current financial resources (short-term unrestricted resources) with capital assets and long-term liabilities. The Statement of Revenues, Expenses and Changes in Net Position focuses on operating revenue, operating expenses by function, and nonoperating revenue/expenses which are supported mainly by tuition and fees, property taxes, state, federal and other revenues. This approach is intended to summarize and simplify the user's analysis of cost related to College services to students and the public.

The remainder of the MD&A highlights the structure and contents of the primary government's financial statements. For detailed information pertaining to the Foundation (the College's discretely presented component unit), refer to the separately issued Foundation financial statements for the year ended June 30, 2014.

Comparative Analysis of Net Position – Fiscal Years 2014 and 2013

	Net Position as of June 30		Increase (Decrease)	Percent Change
	2014	2013		
ASSETS				
Current assets	\$ 3,074,308	\$ 3,235,992	\$ (161,684)	(5.0) %
Capital assets	14,479,109	14,540,856	(61,747)	(0.4)
Other assets	413,646	307,498	106,148	34.5
Total assets	17,967,063	18,084,346	(117,283)	(0.6)
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	57,943	-	57,943	-
LIABILITIES				
Current liabilities	2,640,220	2,074,210	566,010	27.3
Non-current liabilities	2,630,584	2,872,660	(242,076)	(8.4)
Total liabilities	5,270,804	4,946,870	323,934	6.5
NET POSITION				
Net investment in capital assets, net of related debt	11,804,258	11,857,541	(53,283)	(0.4)
Restricted	17,311	13,124	4,187	39.7
Unrestricted	932,633	1,266,811	(334,178)	(26.5)
Total net position	\$ 12,754,202	\$ 13,137,476	\$ (383,274)	(2.9) %

This schedule is prepared from the College's Statement of Net Position (pages 11-12) which is presented on an accrual basis of accounting and the economic resources measurement focus whereby assets are capitalized and depreciated.

The College's total net position at June 30, 2014, decreased from \$13,137,476 to \$12,754,202, which is a decrease of approximately 3%.

In fiscal year 2014, the College's total assets decreased from \$18,084,346 to \$17,967,063.

- Current assets decreased from \$3,235,992 to \$3,074,308. The decrease in current assets of approximately \$160,000 is attributed to a decrease in cash and cash equivalents and an increase in receivables.
 - Cash and cash equivalents decreased approximately \$893,000.
 - Grants receivable increased approximately \$823,000.
 - Student accounts receivable decreased approximately \$90,000.
- Noncurrent assets (Capital and Other assets) increased by about \$45,000.
 - Depreciation expense for FY14 was approximately \$780,000.
 - Significant Capital asset transactions during FY 2014 included the purchase and completion of the Western Technical Center in Baileyville, Kansas, and a Building Trades house in Atchison that remains for sale at year end.
 - The net of these transactions result in an increase in Capital and Other assets (on a historical cost basis) of approximately \$45,000.

Total liabilities increased from \$4,946,870 to \$5,270,804.

- Current liabilities increased from \$2,074,210 to \$2,640,220.
 - Accounts payable and accrued liabilities increased by approximately \$600,000. This is almost entirely related to the new system's ability to more accurately capture invoice dates. We expect this level of Accounts Payable to be the trend for future year ends.
- Non-current liabilities decreased from \$2,872,660 to \$2,630,584.
 - The College added a long term lease for the Western Technical Center totaling \$500,000.
 - However, overall long term leases and debt decreased by approximately \$300,000. This is due to regularly scheduled principal payments.

Fiscal Years 2014 and 2013 Financial Highlights

At June 30, 2014, the College's net position decreased from \$13,137,476 to \$12,754,202. Expenses exceeded revenues by \$383,274 as follows:

	June 30		Increase (Decrease)	Percent Change
	2014	2013		
Operating revenues	\$ 15,549,817	\$ 14,175,385	\$ 1,374,432	9.7 %
Nonoperating revenues	5,538,868	6,396,736	(857,868)	(13.4)
Total revenues	21,088,685	20,572,121	516,564	2.5
Operating expenses	21,377,002	20,322,753	1,054,249	5.2
Nonoperating expenses	94,957	101,722	(6,765)	(7.0)
Total expenses	21,471,959	20,424,475	1,047,484	5.1
Increase (decrease) in net position	(383,274)	147,646	(530,920)	(360.0)
Net position, beginning of year	13,137,476	12,989,830	147,646	1.1
Net position, end of year	\$ 12,754,202	\$ 13,137,476	\$ (383,274)	(2.9) %

Total revenues increased by \$516,564 – an increase of approximately 2.5 percent.

- Operating revenues increased \$1,374,432 – an increase of approximately 10%. The increase in operating revenues is largely attributed to a Kansas Senate Bill 155, which funds Kansas High School students' Postsecondary Technical Education at a higher rate than the College's standard Kansas tuition rate. Other contributing factors include a slight increase in tuition and fees, as well as an increased in enrolled credit hours.
- Nonoperating revenues decreased \$857,868, which is mostly attributable to a reclassification of where HCC records the Senate Bill 155 tuition reimbursement.

Total expenses increased \$1,047,484 – an increase of approximately 5.1%. These increases lie in instructional and academic support expenses, due to increased enrollment.

In general, the ending net position for fiscal year 2014 decreased \$383,274. Details of revenues and operating expenses are covered in more detail in the subsequent financial statement sections.

Fiscal Years 2014 and 2013 Comparative Statement of Cash Flows

The Statement of Cash Flows presents information on the College's sources and uses of cash. Operating activities primarily reflects receipts of tuition and fees, grants and auxiliary enterprises. It also reflects payments to suppliers, employees and employee benefits and payments for scholarships. Non-capital financing activities are mainly those monies received from the state operating grant, postsecondary grant aid and from the local tax base. Cash used in capital and related financing are the purchases of capital assets, purchases of textbooks, the principal paid on the deferred maintenance agreements and 2011 Certificate of Participation and related interest paid.

Cash and cash equivalents decreased in fiscal year 2014 due to increases in salaries and benefits, adjunct instructor payments and supplier expenditures. The four categories as defined by GASB are shown below:

	June 30		Increase (Decrease)	Percent Change
	2014	2013		
Operating activities	\$ (5,095,951)	\$ (4,846,347)	\$ (249,604)	5.2 %
Non-capital financing activities	5,530,272	5,698,401	(168,129)	(3.0)
Capital financing activities	(1,208,178)	(1,327,045)	118,867	(9.0)
Investing activities	(114,301)	154,082	(268,383)	(174.2)
Net decrease	(888,158)	(320,909)	(567,249)	176.8
Cash and cash equivalents, beginning of year	2,625,065	2,945,974	(320,909)	(10.9)
Cash and cash equivalents, end of year	<u>\$ 1,736,907</u>	<u>\$ 2,625,065</u>	<u>\$ (888,158)</u>	<u>(33.8) %</u>

Fiscal Years 2014 and 2013 Comparative Debt Service Summary

During Fiscal year 2014, the College maintained a healthy debt position. Decreases in the 2008 and 2009 loans payable and the 2010 certificates of participation were principal payments made according to the payment schedules. An additional capital lease was secured with HCC Foundation for purchase of the Western Technical Center in Baileyville, Kansas.

	June 30		Increase (Decrease)	Percent Change
	2014	2013		
Outstanding debt service:				
2009 loan payable	\$ 101,793	\$ 135,724	\$ (33,931)	(25.0) %
2008 loan payable	242,501	363,751	(121,250)	(33.3)
2010 certificates of participation	1,815,000	2,155,000	(340,000)	(15.8)
Capital leases	573,500	98,000	475,500	485.2
Compensated absences	199,775	427,166	(227,391)	(53.2)
Early retirement incentives	108,000	135,988	(27,988)	(20.6)
Net OPEB obligation	434,251	367,174	67,077	18.3
Total outstanding debt service	<u>\$ 3,474,820</u>	<u>\$ 3,682,803</u>	<u>\$ (207,983)</u>	<u>(5.6) %</u>

Factors Bearing on the College's Future

At the time these financial statements were prepared and audited, the College was unaware of any adverse existing circumstances that could significantly affect its financial health in the future.

Request for Information:

This financial report is designed to provide a general overview of Highland Community College's finances to all those interested in the College's accountability for the revenue it receives. Questions, concerns, or additional information regarding this report or any information contained therein should be directed to the Vice President of Finance and Operations, 606 W. Main, Highland, Kansas 66035.

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF NET POSITION

June 30, 2014

	<u>Primary Institution</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 1,731,696
Receivables:	
Grants	1,148,087
Accounts, net of allowances of \$ 131,176	94,886
Prepaid items	47,721
Inventories	51,918
	<hr/>
Total current assets	3,074,308
	<hr/>
Noncurrent assets:	
Restricted cash and cash equivalents	5,211
Assets held for resale	122,896
Restricted investments	12,100
Textbooks, net of accumulated depreciation of \$ 913,226	273,439
Capital assets:	
Land	620,320
Construction in progress	31,000
Buildings and improvements	21,464,415
Furniture and equipment	2,634,156
Vehicles	497,148
Less accumulated depreciation	(10,767,930)
	<hr/>
Total noncurrent assets	14,892,755
	<hr/>
Total assets	17,967,063
	<hr/>
Deferred outflows of resources:	
Deferred charge on refunding	\$ 57,943
	<hr/>

(Continued)

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF NET POSITION (Continued)

June 30, 2014

	<u>Primary Institution</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 1,247,149
Deposits held in custody for others	18,300
Unearned revenue	530,535
Accrued compensated absences, current portion	179,907
Early retirement incentives, current portion	72,000
Leases payable, current portion	92,148
Loans payable, current portion	155,181
Certificates of participation, current portion	345,000
	<hr/>
Total current liabilities	2,640,220
	<hr/>
Noncurrent liabilities:	
Accrued compensated absences	19,868
Net OPEB obligation	434,251
Early retirement incentives	36,000
Leases payable	481,352
Loans payable	189,113
Certificates of participation	1,470,000
	<hr/>
Total noncurrent liabilities	2,630,584
	<hr/>
Total liabilities	5,270,804
	<hr/>
Net position:	
Net investment in capital assets	11,804,258
Restricted for:	
Nonexpendable:	
Endowments	17,176
Expendable:	
Other	135
Unrestricted	932,633
	<hr/>
Total net position	\$ 12,754,202
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See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2014

	<u>Primary Institution</u>
Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$ 3,090,794)	\$ 4,458,214
Federal grants and contracts	5,008,452
State and local grants and contracts	2,127,659
Auxiliary enterprises	2,987,666
On-behalf payments	805,981
Gifts and contributions	48,486
Other operating revenues	<u>113,359</u>
Total operating revenues	<u>15,549,817</u>
Operating expenses:	
Education and general:	
Instruction	7,492,133
Academic support	2,055,285
Community service	360,062
Research	2,568
Student services	2,162,233
Institutional support	3,003,814
Operations and maintenance	1,119,500
Depreciation and amortization	782,094
Financial aid	1,685,803
Auxiliary enterprises	1,505,452
Auxiliary depreciation	402,077
On-behalf payments	<u>805,981</u>
Total operating expenses	<u>21,377,002</u>
Operating loss	<u>\$ (5,827,185)</u>

(Continued)

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
(Continued)

Year Ended June 30, 2014

	<u>Primary Institution</u>
Nonoperating revenues (expenses):	
State and local appropriations	\$ 3,984,114
Property taxes	1,496,573
Investment income	8,595
Interest on indebtedness	(94,957)
Other nonoperating revenues	<u>49,586</u>
Net nonoperating revenues	<u>5,443,911</u>
Decrease in net position	(383,274)
Net position - beginning of year	<u>13,137,476</u>
Net position - end of year	<u><u>\$ 12,754,202</u></u>

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS

Year Ended June 30, 2014

	Primary Institution
Cash flows from operating activities:	
Tuition and fees	\$ 4,551,958
Grants and contracts	6,216,663
Auxiliary enterprise charges	2,987,666
Gifts and contributions	48,486
Other receipts	113,359
Payments to suppliers	(6,626,256)
Payments to employees	(9,060,200)
Payments for employee benefits	(1,641,824)
Payments for scholarships	(1,685,803)
Net cash used in operating activities	(5,095,951)
Cash flows from noncapital financing activities:	
State appropriations	3,984,114
Property taxes	1,496,573
William D. Ford direct lending receipts	4,973,019
William D. Ford direct lending disbursements	(4,973,019)
PLUS loans receipts	35,279
PLUS loans disbursements	(35,279)
Other	49,585
Net cash provided by noncapital financing activities	5,530,272
Cash flows from capital and related financing activities:	
Purchases of capital assets	(359,127)
Purchases of textbooks	(414,844)
Proceeds from loan	150,000
Principal paid on long-term debt	(519,681)
Interest paid on long-term debt	(64,526)
Net cash used in capital and related financing activities	(1,208,178)
Cash flows from investing activities:	
Proceeds from maturities of investments	24,200
Purchase of assets held for resale	(122,896)
Interest on investments	8,595
Purchase of investments	(24,200)
Net cash used in investing activities	(114,301)
Net decrease in cash and cash equivalents	(888,158)
Cash and cash equivalents, beginning of year	2,625,065
Cash and cash equivalents, end of year	\$ 1,736,907

(Continued)

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS (Continued)

Year Ended June 30, 2014

	Primary Institution
Reconciliation of cash and cash equivalents to statement of net position:	
Unrestricted cash and cash equivalents	\$ 1,731,696
Restricted cash and cash equivalents	5,211
Total cash and cash equivalents, end of the year	<u>\$ 1,736,907</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (5,827,185)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	1,184,171
Changes in assets and liabilities:	
Grants receivable	(823,346)
Accounts receivable, net	93,744
Prepaid items	(2,002)
Accounts payable and accrued liabilities	602,223
Deposits held in custody for others	(38,972)
Unearned revenue	(96,102)
Accrued compensated absences	(227,571)
Early retirement incentives	(27,988)
Net OPEB obligation	67,077
Net cash used in operating activities	<u>\$ (5,095,951)</u>
NONCASH CAPITAL FINANCING ACTIVITIES:	
Capital assets acquired through capital leasing transactions	<u>\$ 350,000</u>

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE
STATEMENT OF FINANCIAL POSITION
COMPONENT UNIT

June 30, 2014

	<u>Foundation</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 78,146
Lease receivable	<u>92,148</u>
Total current assets	<u>170,294</u>
Noncurrent assets:	
Lease receivable	480,673
Restricted investments	2,011,997
Capital assets:	
Land	758,000
Buildings and improvements	19,450
Furniture and equipment	2,191
Less accumulated depreciation	<u>(17,761)</u>
Total noncurrent assets	<u>3,254,550</u>
Total assets	<u>3,424,844</u>
Liabilities:	
Current liabilities:	
Accounts payable	62,878
Note payable, current portion	<u>33,534</u>
Total current liabilities	96,412
Noncurrent liabilities:	
Note payable	<u>216,466</u>
Total liabilities	<u>312,878</u>
Net assets:	
Permanently restricted	2,415,671
Temporarily restricted	878,839
Unrestricted	<u>(182,544)</u>
Total net assets	<u><u>\$ 3,111,966</u></u>

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF ACTIVITIES COMPONENT UNIT

Year Ended June 30, 2014

	<u>Foundation</u>
Operating revenues:	
Gifts and contributions	\$ 57,168
Net investment income	244,974
Other operating revenues	<u>78,767</u>
Total operating revenues	<u>380,909</u>
Operating expenses:	
Depreciation and amortization	376
Other operating expenses	<u>140,347</u>
Total operating expenses	<u>140,723</u>
Increase in net assets	240,186
Net assets - beginning of year	<u>2,871,780</u>
Net assets - end of year	<u><u>\$ 3,111,966</u></u>

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

1 - Summary of Significant Accounting Policies

Reporting Entity

Highland Community College (the College) was established in 1858 to provide a) college transfer and general education programs which parallel those courses usually offered during the first two years of a four-year program in the professions or liberal arts; b) occupational, vocational and technical education programming which is designed to equip an individual with a marketable skill in two years or less; and c) continuing education programs which offer educational opportunities for personal growth, economic improvement, cultural development and enrichment of personal and family living. For financial reporting purposes, the College is considered a special purpose government engaged only in business-type activities.

The Board of Trustees (Board), a six-member group constituting an on-going entity, has governance responsibilities over all activities related to Highland Community College. In addition to revenues from student tuition and fees and from auxiliary enterprises of the College, the College receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Board members are elected by the public and have policy making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

As required by accounting principles generally accepted in the United States of America, these financial statements present the College and its component unit, an entity for which the College is considered to be financially accountable. The discretely presented component unit is reported in separate statements in the basic financial statements to emphasize it is legally separate from the College. The discretely presented component unit has a June 30 year end.

Discretely-presented component unit. Highland Community College Foundation (the Foundation) is a Kansas non-profit organization created to assist in the receipt, management, and distribution of economic resources to build and maintain academic and support programs for Highland Community College.

Complete financial statements for the Highland Community College Foundation may be obtained at the Foundation's administrative office at 606 W. Main, Highland, KS 66035.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are prepared on the accrual basis of accounting and on an economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. The statement of cash flows provides information about how the College meets the cash flow needs of its activities. All significant intra-agency transactions have been eliminated.

The College distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with ongoing operations. The principal operating revenues of the College are student tuition and fees and sales and services of auxiliary enterprises, net of scholarship discounts and allowances. Operating expenses include the costs of providing education and auxiliary services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Nonoperating transactions include property taxes, State and local appropriations and other contributions. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance. Revenue from State and local appropriations and other contributions is recognized in the year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the College must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the College on a reimbursement basis.

When both restricted and unrestricted resources are available, it is the College's policy to use restricted resources first.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Statement of Cash Flows

For the purposes of the statement of cash flows, the College considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are carried at the original amount less an estimate made for uncollectibles. Management determines the allowance for uncollectibles by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as revenue when received.

Inventories

Inventories are recorded at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method.

Investments

The College's investments include nonnegotiable certificates of deposit. The certificates of deposit are recorded at cost because they are not affected by market rate changes. The Foundation's investments are recorded at fair value based on quoted market prices. Unrealized gains/losses related to changes in fair value are reported in the Foundation's statement of activities.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The College only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported on the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Textbooks

Textbooks are assets that are being rented to the students of the College. Textbooks are depreciated using the sum-of-the-years digits method over their estimated useful life of three years. Depreciation expense is recorded in auxiliary enterprises.

Assets Held for Resale

Assets held for resale are houses built by Technical Center Division of the College (Technical Center) students and sold to the public once the housing project is complete. Assets held for resale are recorded at cost which approximates fair value. The proceeds of the sales are used to fund future housing projects. The College held \$ 122,896 in assets held for resale at June 30, 2014.

Capital Assets

Capital assets include land, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets are defined as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major additions and improvements are capitalized. When assets are sold, the gain or loss on the sale is recorded as non-operating gains or losses. The College capitalizes interest on the construction of capital assets when material.

The College's capital assets are depreciated using the straight-line method over the estimated useful lives of the capital assets. The estimated useful lives are:

Buildings	39 years
Building improvements	15 years
Furniture and equipment	7 years
Vehicles	5 years

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

The Foundation values donated capital assets at the estimated fair market value of the asset at the time of donation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

Unearned Revenue

Tuition and fees received before year end which relate to the subsequent period are reported as unearned on the statement of net position.

Compensated Absences

The College provides paid vacation to classified personnel based on length of service on a calendar year basis. The College provides paid vacation to administrative personnel at a standard rate, regardless of years of service. A maximum of 22 days may be carried over to the following year for vacation leave. Employees are paid for accumulated vacation upon termination of employment.

The provision for and accumulation of sick leave is based upon employment classification. Only retiring professional employees are compensated for unused sick leave. The maximum amount of accrued sick leave for which a retiring employee may be compensated is 25 percent of their accrued sick leave balance but not to exceed twenty work days.

Net Position

Net position is classified as follows:

Net investment in capital assets – This represents the total investment in capital assets, net of accumulated depreciation and related debt.

Restricted net position – nonexpendable – This includes resources that are for endowment purposes. The corpus of the endowment is restricted by external third parties and cannot be expended.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

Restricted net position – expendable – This includes resources that are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties. When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted net position – This includes resources derived from student tuition and fees, state and local appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions related to educational and general operations and may be used at the discretion of the governing board to meet current expenses for any purpose.

Property Taxes

The lien date for property taxes is January 1. Property taxes are levied on November 1. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20, during the year levied, with the balance to be paid on or before May 10 of the ensuing year. Property taxes become delinquent on December 20 of each fiscal year if the taxpayer has not remitted at least one-half of the amount due. Billing and collection is done by Doniphan County. Assessed values are established by the Doniphan County appraiser's office.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pending Governmental Accounting Standards Board Statements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the College. The statements that might impact the College are as follows:

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Pending Governmental Accounting Standards Board Statements (Continued)

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, was issued in June 2012. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This statement also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, was issued in November 2013. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015. The objective of this statement is to address financial reporting issues related to fair value measurements. The statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this statement are effective for periods beginning after June 15, 2015.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2 - Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the current funds - unrestricted and plant funds. The statutes provide for the following sequence and timetable for the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding fiscal year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the year ended June 30, 2014.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds.

All legal annual operating budgets are prepared using the cash basis of accounting, modified by the recording of encumbrances. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the College for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

Spending in funds which are not subject to the legal annual operating budget requirements is controlled by federal regulations, other statutes or by the use of internal spending limits established by the Board.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2 - Budgetary Information (Continued)

Statutory Noncompliance

With the implementation of a new accounting system in fiscal year 2014, the College is not able to provide actual budgetary activity that is comparable to the published budget for fiscal year 2014. In addition, unencumbered cash by individual fund cannot be determined.

3 - Cash and Investments

Credit Risk. Kansas statutes authorize the College to invest in time deposits, open accounts, certificates of deposit, repurchase agreements, U.S. Treasury bills or notes and the State Treasurer's Municipal Investment Pool. All College deposits and investments are in cash and certificates of deposit at banks within the county.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the College's deposits may not be returned to it. Statutes also require that collateral pledged must have a fair market value equal to 100% of the deposits, less insured amounts, and must be assigned for the benefit of the College. At June 30, 2014, the College's deposits were not exposed to custodial credit risk.

Concentration of credit risk. The College's deposit policy does not place any limitations on the percentage of the College's total deposits that may be with any one issuer. Kansas statutes indirectly prohibit such a limitation, as local banks must be given preference on each investment of idle funds.

Investments held by the Foundation consisted of the following at June 30:

	Cost	Fair Value	Unrealized Gain (Loss)
Cash and sweep balance	\$ 23,160	\$ 23,160	\$ -
Preferred/fixed rate capital securities	66,883	71,253	4,370
Mutual funds	1,101,630	1,211,393	109,763
Stock options & ETF	424,919	503,795	78,876
Other stock	25,000	25,000	-
REIT	175,000	177,396	2,396
	<u>\$ 1,816,592</u>	<u>\$ 2,011,997</u>	<u>\$ 195,405</u>

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

3 - Cash and Investments (Continued)

Investment income of the Foundation consisted of the following for the year ended June 30, 2014:

Interest and dividends	\$ 64,942
Lease interest income	5,880
Partnership distribution	7,569
Realized gains	34,264
Unrealized gains	150,911
	<u>\$ 263,566</u>

4 - Capital Assets

Summaries of changes in capital assets follow:

	Balance July 1, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
<u>Highland Community College:</u>					
Capital assets, not being depreciated:					
Land	\$ 620,320	\$ -	\$ -	\$ -	\$ 620,320
Construction in progress	41,937	31,000	-	(41,937)	31,000
Total capital assets, not being depreciated	662,257	31,000	-	(41,937)	651,320
Capital assets, being depreciated:					
Buildings and improvements	20,970,851	459,802	-	33,762	21,464,415
Furniture and equipment	2,503,961	130,195	-	-	2,634,156
Vehicles	400,838	88,135	-	8,175	497,148
Total capital assets, being depreciated	23,875,650	678,132	-	41,937	24,595,719
Less accumulated depreciation for:					
Buildings and improvements	(7,868,328)	(549,166)	-	-	(8,417,494)
Furniture and equipment	(1,775,729)	(197,139)	-	-	(1,972,868)
Vehicles	(352,994)	(24,574)	-	-	(377,568)
Total accumulated depreciation	(9,997,051)	(770,879)	-	-	(10,767,930)
Total capital assets, being depreciated, net	13,878,599	(92,747)	-	41,937	13,827,789
	<u>\$ 14,540,856</u>	<u>\$ (61,747)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,479,109</u>

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

4 - Capital Assets (Continued)

	Balance July 1, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
<u>Foundation:</u>					
Capital assets, not being depreciated:					
Land	\$ 758,000	\$ -	\$ -	\$ -	\$ 758,000
Capital assets, being depreciated:					
Buildings and improvements	19,450	-	-	-	19,450
Furniture and equipment	2,191	-	-	-	2,191
Less accumulated depreciation	(17,385)	(376)	-	-	(17,761)
Total capital assets, being depreciated, net	4,256	(376)	-	-	3,880
	<u>\$ 762,256</u>	<u>\$ (376)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 761,880</u>

5 - Operating Leases

The College has an operating lease for office equipment. Future payments required under the operating lease agreement are as follows:

Year Ending June 30,	
2015	\$ 105,000
2016	105,000
2017	105,000
2018	78,750
	<u>\$ 393,750</u>

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

5 - Operating Leases (Continued)

The College has a sponsorship agreement with the American Bottling Company. Future payments required under the agreement are as follows:

Year Ending June 30,	
2015	\$ 10,000
2016	10,000
2017	10,000
	<hr/>
	\$ 30,000
	<hr/>

Operating lease expense related to these agreements was \$ 115,000 for the year ended June 30, 2014.

The facilities and properties used by the Technical Center are owned by the Atchison Unified School District No. 409 (the District). As a result, the College entered into a lease agreement in 2008 with the District for use of the facilities and properties. The initial lease terms are for a 10 year period. At the expiration of the lease, the parties may, at their option, extend the lease terms for an additional 10 year period. Under the lease agreement, in lieu of paying rent to the District, the College is responsible for paying insurance, maintenance, and utility costs of the facility and property during the lease term. Any construction or improvements to the facility remain the property of the District.

6 - Long-Term Debt

During the year ended June 30, 2011, the College issued 2010 Series Refunding and Improvement Certificates of Participation in the amount of \$ 3,055,000. The 2010 Series certificates of participation are due in annual installments ranging from \$ 345,000 to \$ 385,000 and mature between March 1, 2015 and March 1, 2019. The certificates of participation bear interest at rates ranging from 2.0% to 2.9% payable semi-annually. The remaining balance at June 30, 2014 is \$ 1,815,000.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6 - Long-Term Debt (Continued)

The certificates maturing on March 1, 2018 and thereafter are subject to redemption on or after March 1, 2017 at the option of the College at a price equal to 100% of the principal portion outstanding plus the any accrued interest to the prepayment date.

The annual debt service requirement to amortize the certificates of participation is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 345,000	\$ 45,050	\$ 390,050
2016	355,000	38,150	393,150
2017	360,000	30,340	390,340
2018	370,000	21,340	391,340
2019	385,000	11,165	396,165
	<u>\$ 1,815,000</u>	<u>\$ 146,045</u>	<u>\$ 1,961,045</u>

Capital Leases Payable

In August 2009, the College entered into an agreement to lease two houses purchased by the Foundation. The terms of the agreement call for eight annual payments of \$ 24,500 plus interest at 6% per annum to be paid by the College to the Foundation with the first payment commencing April 1, 2010. Upon termination of the lease, the College may take title to the buildings for no additional consideration. Accordingly, the College has recorded the buildings as capital assets.

In fiscal year 2014, the Foundation purchased property and facilities in Baileyville, Kansas and then sold the property to the College for \$ 350,000 for a satellite learning center. The Foundation also loaned the College \$ 150,000 for construction costs to prepare the facilities for use. The total amount due from the College to the Foundation is \$ 500,000 at June 30, 2014. The property was sold to the College per an installment sale with an interest rate of 4.35%.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6 - Long-Term Debt (Continued)

Capital Leases Payable (Continued)

The cost of and accumulated depreciation on the assets are as follows at June 30:

Houses

Cost	\$ 196,000
Accumulated depreciation	23,034

Baileyville Building

Cost	\$ 350,000
Accumulated depreciation	4,487

Amortization of \$ 9,513 in 2014 on the assets acquired through the capital leases has been included in depreciation expense.

Future payments required under the capital lease agreements are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 24,500	\$ 4,410	\$ 28,910
2016	24,500	2,940	27,440
2017	24,500	1,470	25,970
	<u>\$ 73,500</u>	<u>\$ 8,820</u>	<u>\$ 82,320</u>

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6 - Long-Term Debt (Continued)

Year Ending June 30,	Principal	Interest	Total
2015	\$ 67,648	\$ 5,438	\$ 73,086
2016	54,278	18,807	73,085
2017	56,640	16,446	73,086
2018	59,103	13,982	73,085
2019	61,674	11,411	73,085
	<u>200,657</u>	<u>17,666</u>	<u>218,323</u>
	<u>\$ 500,000</u>	<u>\$ 83,750</u>	<u>\$ 583,750</u>

Loans Payable

The College entered into a loan agreement with the Kansas Board of Regents (KBOR) for deferred maintenance costs effective March 2008. The College has four deferred maintenance projects approved under the loan agreement. The College must pay for construction costs upfront and request reimbursement for actual costs. The loan is for a term of 8 years and a total not to exceed \$ 970,000. The College must pay 1/8 of the total loan amount (\$ 121,250) on or before December 1 in each of the eight years in the amortization period, beginning December 1, 2008. Repayments must be made in accordance with this schedule regardless of whether the College has requested and/or received loan disbursements. The loan does not bear interest. The balance of the loan payable was \$ 242,501 at June 30, 2014.

The College entered into another loan agreement with the Kansas Board of Regents (KBOR) for deferred maintenance costs effective March 2009. The College has five deferred maintenance projects approved under the loan agreement. The College must pay for construction costs upfront and request reimbursement for actual costs. The loan is for a term of 8 years and a total not to exceed \$ 241,100. The College must pay 1/8 of the total loan amount (\$ 33,931) on or before December 1 in each of the eight years in the amortization period, beginning December 1, 2009. Repayments must be made in accordance with this schedule regardless of whether the College has requested and/or received loan disbursements. The loan does not bear interest. The balance of the loan payable was \$ 101,793 at June 30, 2014.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6 - Long-Term Debt (Continued)

Changes in Long-Term Debt

Current fiscal year transactions are summarized as follows:

	Balance, July 1, 2013	Additions	Reductions	Balance, June 30, 2014	Due Within One Year
Certificates of participation					
Series 2010	\$ 2,155,000	\$ -	\$ 340,000	\$ 1,815,000	\$ 345,000
2008 loan payable	363,751	-	121,250	242,501	121,250
2009 loan payable	135,724	-	33,931	101,793	33,931
Capital lease payable	98,000	500,000	24,500	573,500	92,148
Compensated absences	427,166	84,132	311,523	199,775	179,907
Net OPEB obligation	367,174	67,077	-	434,251	-
Early retirement incentives	135,988	-	27,988	108,000	72,000
	<u>\$ 3,682,803</u>	<u>\$ 651,209</u>	<u>\$ 859,192</u>	<u>\$ 3,474,820</u>	<u>\$ 844,236</u>

7 - Defined Benefit Pension Plan

Plan description. The College participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding policy. K.S.A. 74-4919 and K.S.A. 74-49210 establish the KPERS member-employee contribution rates. Effective July 1, 2009, KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate of 4% or 5% of covered salary for Tier 1 members (depending on participating service percentage election) and at 6% of covered salary for Tier 2 members. Member employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7 - Defined Benefit Pension Plan (Continued)

The State of Kansas is required to contribute the statutorily required employer's share on behalf of the College. The State of Kansas made payments of \$ 805,981 on behalf of the College for the year ended June 30, 2014.

8 - Early Retirement Benefits

The College offers early retirement benefits to certain eligible employees. To be eligible for early retirement benefits, employees must be full-time employees of the College and must be KPERS eligible. To be KPERS eligible, Tier 1 and Tier 2 members must meet one of the following criteria as required by KPERS: full retirement qualifications or early retirement qualifications.

Benefits for eligible participants include receiving \$ 6,000 per year each year for three years in either a lump sum of \$ 6,000 per year or \$ 500 per month at the eligible participant's discretion. Eligible participants may use the \$ 6,000 to pay towards continuing their participation in the College's group health insurance plan at the same rate paid by the college. Amounts in excess of the eligible participant's premiums would be paid to the eligible participant.

9 - Other Postemployment Healthcare Benefits

Description. The College offers postemployment health and dental insurance to retired employees. The benefits are provided through fully insured contracts that collectively operate as a single employer defined benefit postemployment healthcare plan administered by the College. Kansas statutes provide that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements until the individuals become eligible for Medicare coverage at age 65. The health and dental insurance benefit provides the same coverage for retirees and their dependents as for active employees and their dependents. The benefit is available for selection at retirement and is extended to retirees and their dependents until the individuals become eligible for Medicare at age 65. Eligibility for retirement is based on the retirement provisions of the Kansas Public Employees Retirement System. A retiring employee who waives continuing participation in the College's health insurance program at the time of retirement is not eligible to participate at a later date. The plan does not issue a stand-alone financial report.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

9 - Other Postemployment Healthcare Benefits (Continued)

Funding Policy. The College provides health and dental insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 12-5040). Kansas statutes, which may be amended by the state legislature, establish that participating retirees may be required to contribute to the employee group health benefits plan, including administrative costs at an amount not to exceed 125 percent of the premium cost for other similarly situated employees.

The College requires participating retirees to contribute 100 percent of the blended premium cost of active employees to maintain coverage.

The College appropriates funds annually for the costs associated with this retirement benefit and provides funding for expenditures on a pay-as-you-go basis through the College's general operating fund. During the year ended June 30, 2014, the College did not have any retirees covered under the plan; therefore, the College made no contributions to the plan.

Annual OPEB Cost and Net OPEB Obligation. The College's annual OPEB (other post employment benefit) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following presents the components of the College's annual OPEB cost for the year ended June 30, 2014, the amounts contributed to the plan and changes in the College's net OPEB obligation.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

9 - Other Postemployment Healthcare Benefits (Continued)

Annual required contribution	\$ 69,227
Interest on net OPEB obligation	12,850
Adjustment to annual required contribution	<u>(15,000)</u>
Annual OPEB cost (expense)	67,077
Contributions made	<u>-</u>
Increase in net OPEB obligation	67,077
Net OPEB obligation, beginning of year	<u>367,174</u>
Net OPEB obligation, end of year	<u><u>\$ 434,251</u></u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 67,077	0%	\$ 434,251
2013	\$ 67,467	0%	\$ 367,174
2012	\$ 67,867	0%	\$ 299,707

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$ 469,258. The College's policy is to fund the benefits on a pay-as-you-go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 469,258. For the year ended June 30, 2014, the covered payroll (annual payroll of active employees covered by the plan) was \$ 5,810,780, and the ratio of the UAAL to the covered payroll was 8.08 percent.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

9 - Other Postemployment Healthcare Benefits (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was applied. The actuarial assumptions included a 3.5 percent discount rate, which is a blended rate of the expected long-term investment return on the College's own investments calculated based on the funded level of the plan at the valuation date. The valuation showed an actual annual healthcare cost trend rate of -3.0 percent after one year and assumed an annual healthcare cost trend rate of 8.5 percent after two years, reduced by decrements to an ultimate rate of 5.0 percent after nine years. The valuation did not assume a dental cost trend rate because no employer age-subsidy may exist since both actives and retirees pay the carrier rate. The UAAL is being amortized using a level percentage of projected payroll on an open basis over a period of 30 years and assuming a payroll increase of 2.00 percent per year.

10 - Transactions with the Foundation

The Foundation uses College employees to perform Foundation operations. The Foundation reimburses the College for a portion of the executive director's salary and all of the bookkeeper's salary. All payroll and withholding activities for these employees are performed by the College. The amounts paid to the College for salaries and benefits during the year ended June 30, 2014 were approximately \$ 14,600.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

10 - Transactions with the Foundation (Continued)

During 2009, an agreement was created between the College and the Foundation which transferred the Brown County land and building to the Foundation from the trust at the fair value of \$ 777,450 based on the County's appraisal of the property. The land and building are restricted for endowment based on the requirements of the trust agreement. Additionally, the Foundation entered into an agreement with the College to lease the Brown County land to the College. The College is to receive the farm cash rent from the property and pay 33% of the farm cash rent to the Foundation. The College also has the right to purchase the property for a sum of \$ 1,000 to be exercised at any time. The lease with option to purchase shall terminate on July 1, 2029 with the right to renew for an additional 21 years. The Foundation is responsible for paying the real estate taxes on the property and the College is responsible for paying all insurance and other costs associated with farming and maintaining the property as well as capital improvements.

11 - Commitments and Contingencies

The College is a party to various claims arising in the ordinary course of business. While the results of litigation and claims cannot be predicted with certainty, based on advice of counsel and considering insurance coverage, management believes that the final outcome of such matters will not have a material effect on the College's financial position.

12 - Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant change in insurance coverage from the previous fiscal year. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

13 - Subsequent Event

On November 20, 2014, the Foundation board certified in resolution, a loan to the College up to a total of \$ 500,000. The \$ 500,000 plus interest of \$ 14,455 was repaid to the Foundation on June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

HIGHLAND COMMUNITY COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
OTHER POST EMPLOYMENT BENEFITS

June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2008	\$ -	\$ 581,333	\$ 581,333	0.0%	\$4,842,960	12.00%
7/1/2011	\$ -	\$ 469,258	\$ 469,258	0.0%	\$5,810,780	8.08%

SUPPLEMENTARY INFORMATION

HIGHLAND COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture:		
Passed through Kansas Department of Agriculture:		
Specialty Crop Block Grant Program	10.170	\$ 26,431
U.S. Department of Labor:		
Passed through Washburn University:		
Technical Retraining to Achieve Credentials	17.282	247,431
National Science Foundation:		
Education and Human Resources	47.076	91,180
Passed through Missouri State University:		
Viticulture and Enology Science and		
Technology Alliance - Education and Human Resources	47.076	57,000
Total National Science Foundation		148,180
U.S. Department of Education:		
Direct Programs:		
Higher Education - Institutional Aid	84.031A	261,018
TRIO - Student Support Services	84.042A	176,182
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity		
Grant Program	84.007	56,500
Federal Work Study Program	84.033	57,005
Federal Pell Grant Program	84.063	3,870,959
Federal Direct Student Loans	84.268	5,008,298
Student Financial Assistance Cluster subtotal		8,992,762
Passed through Kansas Board of Regents:		
Adult Education	84.002	129,608
Carl Perkins Program Improvement	84.048	89,802
Carl Perkins Reserve Fund	84.048	15,000
Total U.S. Department of Education		9,664,372
Total federal award expenditures		\$ 10,086,414

See accompanying notes to schedule of
expenditures of federal awards.

HIGHLAND COMMUNITY COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2014

1 - General

The accompanying schedule of federal awards presents the activity of all federal award programs of Highland Community College (the College).

2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting.

3 - Guaranteed Student Loans

Guaranteed student loans, including subsidized and unsubsidized direct student loans, are presented on the basis of the amount of loans awarded and are made by the Secretary of Education rather than by the College. Due to this program being a transaction between the student and the loan origination center, these loans are not recorded in the College's financial statements. Due to the College's responsibility for determining eligibility and administering the loans, they have been included in the schedule of expenditures of federal awards.

HIGHLAND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified:	Finding 2014-001
Significant deficiencies identified that are not considered to be material weaknesses:	Finding 2014-003, Finding 2014-004, Finding 2014-005
Noncompliance material to the financial statements:	Finding 2014-002

Federal Awards

Internal control over major programs:	
Material weaknesses identified:	Finding 2014-001, Finding 2013-001
Significant deficiencies identified that are not considered to be material weaknesses:	Findings 2012-002
Type of auditor’s report issued on compliance for major programs:	Student Financial Assistance Cluster: Qualified – Special Tests and Provisions - No. 4 Return of Funds
Any audit findings that are required to be reported in accordance with Section 510(a) of Circular A-133:	Findings 2014-001, 2013-001 and 2012-002

HIGHLAND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Student Financial Assistance Cluster:	
84.007	Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 302,592
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Auditee qualified as a low-risk auditee:	No
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Section II – Financial Statement Findings

Finding 2014-001 – Material Weakness

Criteria – The College’s internal controls should be designed to ensure financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in a timely manner.

Condition – Significant asset and liability accounts are not recorded or reconciled on the College’s general ledger system in a timely manner. The computer system for maintaining student accounts receivable information cannot show an appropriate roll-forward balance. The accounts receivable system allows different departments to make changes to student balances for any semester at any time.

Cause – The College’s financial reporting internal control structure is not functioning in a manner that allows the College to maintain information to provide financial statements in accordance with GAAP in a timely manner.

Effect – Although the College continues to make strides in identifying significant journal entries, there remained required journal entries which were not initially identified by the College’s internal controls. Reconciliation in such areas as cash, receivables, unearned revenues, and other accrued liabilities were not performed timely resulting in financial statements not being maintained in accordance with GAAP.

Recommendation – We recommend the College implement controls and processes to record all adjustments needed to present financial statements in accordance with GAAP in a timely manner.

HIGHLAND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings (Continued)

Finding 2014-001 – Material Weakness (Continued)

Management's Response (Unaudited) – Management agrees.

Corrective Action Plan (Unaudited) – Modifications to processes and reports will be made to allow for adjustments to be made in compliance with GAAP in a timely manner.

Finding 2014-002 – Material Noncompliance

Criteria – The College's internal controls and financial reporting processes should be designed to ensure compliance with Kansas statutes (specifically K.S.A. 10-1117, K.S.A. 79-2934, and K.S.A. 79-2935).

Condition – With the implementation of a new accounting system in fiscal year 2014, the College is not able to provide actual budgetary activity that is comparable to the published budget for fiscal year 2014. In addition, unencumbered cash by individual fund cannot be determined.

Cause – The College's financial reporting internal control structure was not designed to allow the College to maintain information to provide budgetary information in accordance with the Kansas Municipal Audit and Accounting Guide (KMAAG).

Effect – The College is not able to demonstrate compliance with K.S.A. 10-1117, K.S.A. 79-2934, and K.S.A. 79-2935.

Recommendation – We recommend the College implement controls and processes to report budgetary information to be in compliance with K.S.A. 10-1117, K.S.A. 79-2934, and K.S.A. 79-2935.

Management's Response (Unaudited) – Management agrees.

Corrective Action Plan (Unaudited) – Reports from the new computer system should allow for adequate budgetary information to be provided and in turn allow for implementation of internal controls to demonstrate compliance with said statutes.

HIGHLAND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Finding 2014-003 – Significant Deficiency

Criteria – The College’s internal controls should be designed to ensure proper segregation of duties in the cash disbursement cycle.

Condition – One employee has the ability to access the payroll system, process payroll and generate signed checks. In addition, one employee has the ability to access the accounts payable system, process accounts payable checks and generate signed checks. Lastly, a supervisor has the ability to process and generate signed checks.

Cause – The College’s payroll, accounts payable, and check writing controls are not properly designed to appropriately segregate duties for certain employees.

Effect – The lack of segregation of duties could lead to potential errors or fraud.

Recommendation – We recommend the College implement controls and processes that allow for the segregation of duties within the payroll and accounts payable cycles and to segregate the duties between processing and review.

Management’s Response (Unaudited) – Management agrees.

Corrective Action Plan (Unaudited) – Segregation of duties will be visited and subsequent processes examined leading to changes in internal procedures to comply with recommendation.

Finding 2014-004 – Significant Deficiency

Criteria – The College’s internal controls should be designed to ensure proper segregation of duties and review in the journal entry process.

Condition – One supervisory employee has the ability to process and record journal entries that are not reviewed by another employee. This same employee is responsible for review of the bank reconciliation and has the ability to process and generate signed checks.

Cause – The College’s controls over journal entries controls are not properly designed to appropriately segregate duties.

HIGHLAND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Finding 2014-004 – Significant Deficiency (Continued)

Effect – The lack of segregation of duties could lead to potential errors or fraud.

Recommendation – We recommend the College implement controls and processes that allow for the segregation of duties within the journal entry cycle and to segregate the duties between processing and review.

Management's Response (Unaudited) – Management agrees.

Corrective Action Plan (Unaudited) – A process for reviewing, recording and approving journal entries will be implemented to ensure appropriate segregation of duties.

Finding 2014-005 – Significant Deficiency

Criteria – The College's internal controls should be designed to ensure bank activity is reconciled to the general ledger in a timely manner after each month-end. In addition, bank reconciliations should show signs of review by supervisory personnel and have all supporting documentation attached.

Condition – The bank reconciliations from September 2013 – June 2014 were not completed in a timely manner after each month-end and did not show signs of review. In addition, for one of the bank reconciliations selected for testing, a supporting outstanding check list could not be provided.

Cause – The College did not have processes and procedures in place during the fiscal year to reconcile bank activity to general ledger activity.

Effect – The lack of reconciling bank activity to general ledger activity could lead to errors or fraud going undetected.

Recommendation – We recommend the College implement controls and processes that allow for the reconciling of bank activity to the general ledger in a timely manner after each month-end. In addition, reconciliations should show evidence of review by supervisory personnel and be supported by appropriate supporting documentation.

Management's Response (Unaudited) – Management agrees.

Corrective Action Plan (Unaudited) – Bank reconciliations will be scheduled for review, completion and approval on a timely basis.

HIGHLAND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

Finding 2014-001- Material Weakness

Please refer to the Financial Statement Findings section for the details of this finding. This finding affects all federal programs listed on the schedule of expenditures of federal awards.

Finding 2013-001 – Material Weakness (Repeated)

Federal Program – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2014

Compliance Requirement – Special Tests and Provisions No. 4 – Return of Title IV Funds

Condition – During our testwork, we were unable to obtain a complete, accurate population for students with Return of Funds activity. As such, the Return of Funds testing was not able to be completed.

Criteria – The College must determine the amount of unearned Title IV assistance to be returned to the federal government using guidance at 34 CFR 668.22. The College should have internal controls that would include a mechanism to trigger when a Return of Funds calculation is necessary.

Cause – The College lacked the internal controls necessary to trigger the calculation of Return of Funds. The inability to analyze when Return of Funds is necessary in turn hampered the College's ability to produce an accurate, complete population.

Effect – The College could have retained federal funds for longer than allowed and this could impact future funding.

Questioned Costs – Unknown.

Recommendation – We recommend the College implement controls that would include reminders or other failsafe procedures that would ensure evaluations of federal funds occur once a student who has received Title IV assistance has dropped out of the College.

Management's Response (Unaudited) – Management agrees.

Corrective Action Plan (Unaudited) – A process for monitoring student attendance and enrollment for purposes of performing the Return to Title IV calculation was developed during the 2014-15 academic year, and fully implemented for the Fall 2015 semester.

HIGHLAND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Finding 2012-002 – Significant Deficiency (Repeated)

Federal Program – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2014

Compliance Requirement – Special Tests and Provisions No. 8 – Borrower Data Transmission and Reconciliation- Direct Loans only (CFDA No. 84.268)

Condition – Reconciliations of School Account Statements (SAS) were not performed timely. The reconciliations tested were performed 5 to 6 months after month-end when the reconciliations are required to be performed monthly.

Criteria – As discussed at 34 CFR 685.102(b), the College is required to perform monthly reconciliations of the School Account Statement data file back to the College's financial records.

Cause – The College has not implemented procedures to ensure that the reconciliations are performed monthly and fully documented as such.

Effect – Not performing the reconciliation monthly could lead to material differences between the U.S. Department of Education and the College's financial information. These differences would then not be corrected in a timely manner.

Questioned Costs – None.

Recommendation – We recommend the College implement procedures that will address the lack of timeliness for the SAS reconciliation.

Management's Response (Unaudited) – Management agrees.

Corrective Action Plan (Unaudited) – A process for performing timely SAS reconciliations each month was developed and implemented for the Fall 2014 semester.

HIGHLAND COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2014

Finding 2009-1 – Material Weakness (Repeated)

Criteria – The College’s internal controls should be designed to ensure financial statements are prepared in accordance with generally accepted accounting principles (GAAP) and in a timely manner.

Condition – Significant asset, liability and fund balance/net asset accounts are not recorded on the College’s general ledger system. The computer system for maintaining student accounts receivable information cannot show an appropriate roll-forward balance. The accounts receivable system allows different departments to make changes to student balances for any semester at any time and it does not integrate with the current general ledger system. In addition, tuition and fees are allocated to revenue accounts based on an allocation of actual cash received rather than being based on actual tuition and fee charges.

Cause – The College’s financial reporting internal control structure is not capable of maintaining information to provide financial statements in accordance with GAAP and in a timely manner.

Effect – Although the College continues to make strides in identifying significant journal entries, there remained required journal entries which were not initially identified by the College’s internal controls and information in such areas as receivables, payables, deferred revenues, long-term debt, capital asset and fund balance/net asset information are not available to the Board of Trustees and users within the College’s management. In addition, tuition and fee revenue may not be appropriately reported by revenue classification. Additionally, information was not available in a timely manner for preparation of financial statements.

Recommendation – We continue to recommend the College investigate opportunities to obtain a general ledger system that allows the financial statements prepared by management to be presented on the accrual basis of accounting and that can appropriately and more efficiently track student accounts receivable balances and tuition and fee revenue in a timely manner.

Management’s Response (Unaudited) – Management agrees with the significance of this issue.

Corrective Action Plan (Unaudited) – The College has purchased and is implementing in 2014 a new general ledger system capable of producing accrual basis financial statements.

Follow-up – This finding is not repeated in 2014.

HIGHLAND COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

Finding 2012-001- Significant Deficiency (Repeated)

Federal Program – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2013

Compliance Requirement – Special Tests and Provisions No. 2 - Verification

Condition – Our testing of the verification of student eligibility revealed that for 2 of 60 students tested, the College did not accurately correct the students’ accounts in the database after obtaining updated information from the students during the verification process.

Criteria – For those students selected for the verification process, the College is required to obtain acceptable documentation from the student and match that documentation to the student aid application. If there are differences, the College is required to make the necessary changes to the student’s account and ensure that the changes made to the account are accurate.

Cause – Human error and a lack of review of the verification caused incorrect amounts to be included on the students’ accounts and caused the loss of certain verification documentation.

Effect – The lack of review of verification results could impact the eligibility of selected students.

Questioned Costs – Unknown.

Context – The amount of Title IV funds disbursed to the students in question was \$ 8,786. The total amount disbursed in the rest of our sample population was \$ 339,365.

Recommendation – We recommend the College continue to work on implementing procedures that would include a thorough review of the changes made to student accounts resulting from the verification process.

Management’s Response (Unaudited) – The Director of Financial Aid reviews students’ information after verification. Subsequent to the year ended June 30, 2013, the College hired a replacement Director of Financial Aid. She has several years’ experience working within financial aid, and has made adjustments that will improve this process.

Corrective Action Plan (Unaudited) – Subsequent to the year ended June 30, 2013, the College retained a third party verification firm. This allows the Director of Financial Aid to review the files independently, rather than reviewing her own verifications, which has historically resulted in these types of findings.

HIGHLAND COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

Finding 2012-001- Significant Deficiency (Repeated) (Continued)

Follow-up – This finding is not repeated in 2014.

Finding 2012-002 – Significant Deficiency (Repeated)

Federal Program – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2013

Compliance Requirement – Special Tests and Provisions No. 8 – Borrower Data Transmission and Reconciliation- Direct Loans only (CFDA No. 84.268)

Condition – Reconciliations of School Account Statements (SAS) were performed only at year end when such reconciliations are required to be performed monthly. Although the College has represented that the reconciliations were performed more timely than only at year end, no documentation was produced to support that assertion.

Criteria – As discussed at 34 CFR 685.102(b), the College is required to perform monthly reconciliations of the School Account Statement data file back to the College's financial records.

Cause – The College has not implemented procedures to ensure that the reconciliations are performed monthly and fully documented as such.

Effect – Not performing the reconciliation monthly could lead to material differences between the U.S. Department of Education and the College's financial information. These differences would then not be corrected in a timely manner.

Questioned Costs – None.

Recommendation – We recommend the College implement procedures that will address the lack of timeliness and documentation for the SAS reconciliation.

Management's Response (Unaudited) – The College was performing modified monthly reconciliations, although not in the form required for a complete SAS reconciliation. The College has historically been unsuccessful in obtaining the necessary reports from COD to perform these reconciliations in a timely fashion.

HIGHLAND COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

Finding 2012-002 – Significant Deficiency (Repeated) (Continued)

Corrective Action Plan (Unaudited) – Subsequent to June 30, 2013, the new Director of Financial Aid engaged a consultant to help the College develop a procedure for obtaining the necessary reports from COD, and for using those reports to prepare SAS reconciliations in the required timeline. These reconciliations will be performed in accordance with the Standards beginning Spring 2014.

Follow-up – This finding is repeated in 2014.

Finding 2013-001 – Material Weakness

Federal Program – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2013

Compliance Requirement – Special Tests and Provisions No. 4 – Return of Title IV Funds

Condition – During our testwork, we discovered that for 14 of the 21 students required to have a Return of Funds calculation, no such calculation was performed during the year ended June 30, 2013. The College subsequently performed the calculations and determined that \$7,133 should have been returned within the 45 day required timeframe. However, these funds were not returned until late February 2014, which is well beyond the required timeframe. Also, one of the four Return of Funds calculations tested was not performed timely. It was performed approximately one month late.

Criteria – The College must determine the amount of unearned Title IV assistance to be returned to the federal government using guidance at 34 CFR 668.22.

Cause – The College was unaware that the Return of Funds calculations had ceased sometime during the year.

Effect – The College retained federal funds for longer than allowed and this could impact future funding.

Questioned Costs and Context – The amount of Title IV funds not returned timely is \$7,133.

Recommendation – We recommend the College implement controls that would include reminders or other failsafe procedures that would ensure evaluations of federal funds occur once a student who has received Title IV assistance has dropped out of the College.

Management's Response (Unaudited) – The College did not have a good system for identifying and performing Return of Funds calculations and reimbursements during FY 2013.

HIGHLAND COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

Finding 2013-001 – Material Weakness (Continued)

Corrective Action Plan (Unaudited) – Subsequent to June 30, 2013, the College's new Director of Financial Aid began using the Department of Ed's Return of Funds website to perform the required calculations, to ensure their accuracy. In addition, the Director of Financial Aid and the Registrar have a schedule in place to periodically review student accounts with full withdrawals for failed courses.

Follow-up – This finding is repeated in 2014.



BERBERICH TRAHAN & CO., P.A.
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Highland Community College:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Highland Community College (the College) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated September 8, 2015. Our report includes a reference to other auditors who audited the financial statements of Highland Community College Foundation, as described in our report on the College's financial statements. The financial statements of Highland Community College Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2014-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2014-003, 2014-004 and 2014-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2014-002.

The College's Response to the Findings

The College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The College's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berberich Trahan & Co., P.A.

September 8, 2015
Topeka, Kansas



BERBERICH TRAHAN & CO., P.A.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

The Board of Trustees
Highland Community College:

Report on Compliance for Each Major Federal Program

We have audited Highland Community College's (the College) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the College's major federal program for the year ended June 30, 2014. The College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the College's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the College's compliance.

Basis for Qualified Opinion on the Student Financial Assistance Cluster

As described in the accompanying schedule of findings and questioned costs, the College did not comply with requirements regarding the Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063 and 84.268) as described in Finding 2013-001 for Special Tests and Provisions – Return of Title IV Funds. Compliance with such requirements is necessary, in our opinion, for the College to comply with the requirements applicable to that program.

Qualified Opinion on the Student Financial Assistance Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Student Financial Assistance Cluster for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed another instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2012-002. Our opinion on the major federal program is not modified with respect to this matter.

The College's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2014-001 and 2013-001 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2012-002 to be a significant deficiency.

The College's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Berberich Trahan & Co., P.A.

September 8, 2015
Topeka, Kansas